

December 2017

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Monthly Overview

Equity market strength continued in November as most domestic and international benchmarks posted gains. On this side of the border, the S&P/TSX Composite eked out a 0.5% gain. Gains in health care, consumer staples and telecom stocks were dampened by weakness in materials, energy and industrials sectors. The index reached an all-time closing high on November 7, and to the end of the month, was up close to 8% on a YTD basis.

U.S. stocks had a solid showing on the month, with the S&P 500 rallying 3.1% in Canadian dollar terms. YTD, this index was up nearly 16% through the end of November. The benchmark itself ended the month at an all-time high, marking the 58th trading day this year in which a new closing peak was reached. All 11 of the S&P 500's subsectors ended the month in the green in CAD terms, with the telecom and consumer stocks seeing the most upside.

Looking abroad, international stocks posted gains across the board in November, with MSCI's EAFE and Emerging Markets benchmarks pushing 1.1% and 0.2% higher, respectively, in Canadian dollar terms.

Bond yields closed November flat to somewhat lower versus October, leading to a pickup of 0.8% for the FTSE TMX Canada Universe Bond index. Looking a little longer term, that index, as well as the global bond and high yield bond indices we track, were in the red for the six months ended November 30, in CAD terms.

Commodity prices were mixed in November, as energy prices were well supported. Copper and silver were both off about 2% and gold eked out a small gain.

Canadian employment rose a massive 80K in November according to the Labour Force Survey, a gain that led to a four-tick drop of the unemployment rate to 5.9%. Job gains were concentrated in the private sector, which added 72K jobs, the largest monthly increase in three years. The strength in the employment statistics have prompted some economists to suggest that the Bank of Canada is understating the tightness of the labour market.

Domestic GDP expanded at an annualized pace of 1.7% in the third quarter. Trade was an expected drag on growth due to slumping exports, but domestic demand helped power the economy in Q3 thanks to gains for consumption, government spending and business investment which more than offset a small negative contribution from residential construction.

Q3 GDP growth in the U.S. was revised upward to 3.3% annualized from its advance estimate of 3.0%. The economy south of the border has done better than most expected this year, as business investment has sprung back to life thanks to the stabilization of the energy sector and improved confidence amidst a buoyant global economy. Many economists are expecting another year of above-potential growth in 2018 thanks in part to tax cuts.

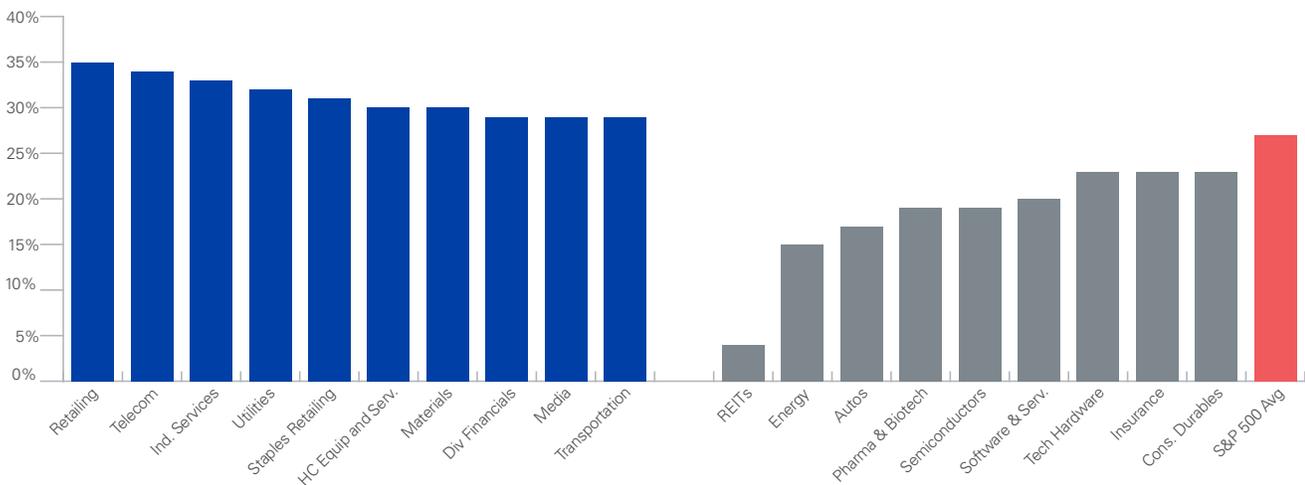
Meanwhile, export powerhouses such as the Eurozone and Japan are on track to register above-potential growth courtesy of buoyant global trade. Emerging economies also likely grew faster than the prior year thanks to trade but also to stimulative policies. Slightly higher inflation could have some central banks tighten policy somewhat in 2018, although that's unlikely to be enough to prevent a repeat of this year's solid growth performance.

Monthly Market Statistics

Data to November 30, 2017, unless otherwise indicated

Republican lawmakers have been working hard to finalize the wording of a massive tax reform bill and centerpiece of the legislation is a reduction in the corporate income tax rate to 20 percent from the current 35 percent (note that Canada's gross federal corporate tax rate is 15 percent). In addition, it is expected that there will be a provision that allows some companies to bring back hundreds of billions of dollars in foreign profits at a lower rate than they otherwise would've paid. The Chart of the Month reveals which industries south of the border have paid the highest tax rate to Uncle Sam and which have paid the least, on average, over the past three years. The key takeaway is that domestically oriented sectors carry the highest tax rates and are perhaps poised to benefit most from tax reform.

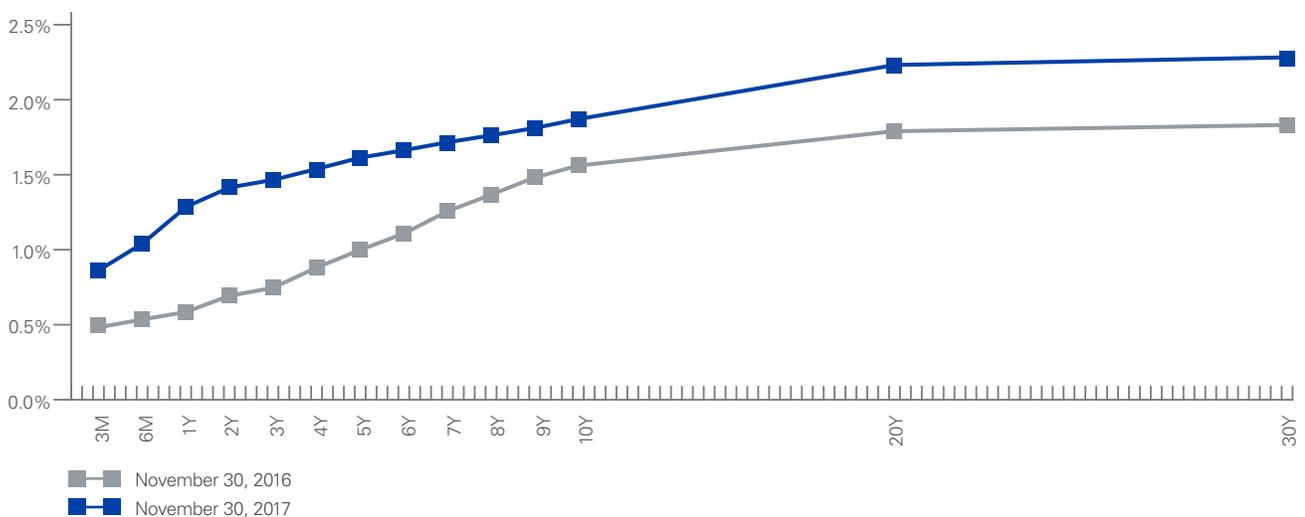
Effective Tax Rate by U.S. Industry Group



Source: S&P, Thomson Financial, FactSet, Credit Suisse

Note: Based on 3-yr trailing dollar wtd effective tax rate

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to November 30, 2017, unless otherwise indicated

Equity Index Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|----------------------|------|------|------|------|------|------|------|-------------|
| S&P/TSX Composite | 0.5 | 6.4 | 6.2 | 7.8 | 9.6 | 6.0 | 8.8 | 7.4 |
| S&P/TSX Small Cap | 0.4 | 4.1 | 4.9 | 0.1 | 3.9 | 6.2 | 5.2 | 13.8 |
| S&P 500 | 3.1 | 10.9 | 5.9 | 15.6 | 18.2 | 15.4 | 21.9 | 10.0 |
| MSCI EAFE | 1.1 | 8.4 | 3.2 | 18.6 | 23.1 | 10.9 | 14.7 | 12.2 |
| MSCI World | 2.3 | 9.8 | 4.9 | 16.5 | 19.7 | 13.3 | 18.5 | 10.4 |
| MSCI World Small Cap | 2.3 | 11.1 | 7.0 | 16.6 | 19.8 | 16.3 | 20.4 | 11.0 |
| MSCI Europe | 0.0 | 7.0 | 1.1 | 18.9 | 25.6 | 9.5 | 14.0 | 13.1 |
| MSCI EM | 0.2 | 6.4 | 8.1 | 27.5 | 28.2 | 10.9 | 10.6 | 15.7 |
| MSCI AC Asia | 1.6 | 9.8 | 8.2 | 24.1 | 24.2 | 14.2 | 15.4 | 12.9 |

Source: Bloomberg

Fixed Income Returns (% in CAD)

| Index | 1 Mo | 3 Mo | 6 Mo | YTD | 1Yr | 3Yr | 5Yr | 3Yr Std Dev |
|---------------------------------------|------|------|------|-----|-----|-----|------|-------------|
| FTSE TMX Canada Universe Bond | 0.8 | 1.1 | -0.6 | 2.9 | 2.4 | 2.9 | 3.07 | 4.3 |
| Barclays Global Agg | 1.1 | 2.8 | -2.2 | 2.7 | 2.5 | 5.8 | 6.1 | 4.9 |
| Barclays High Yield Very Liquid Index | -0.3 | 3.7 | -2.7 | 1.9 | 4.2 | 8.9 | 10.6 | 6.1 |

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

| Cross | 09/29/2017 Price (\$) | MoM Change (%) | YoY Change (%) |
|---------------|-----------------------|----------------|----------------|
| WTI Crude Oil | 57.40 | 5.6 | 16.1 |
| Natural Gas | 3.03 | 4.5 | -9.8 |
| Copper | 303.7 | -2.1 | 15.8 |
| Silver | 16.38 | -1.9 | -0.1 |
| Gold | 1273 | 0.2 | 8.7 |

Source: Bloomberg

Economic Data

| Canada | |
|-----------------------------------|-----|
| Real GDP - Q3 (q/q ann. % change) | 1.7 |
| Consumer Prices (y/y % change) | 1.4 |
| Unemployment Rate, Nov '17 | 5.9 |
| United States | |
| Real GDP - Q3 (q/q ann. % change) | 3.3 |
| Consumer Prices (y/y % change) | 2.0 |
| Unemployment Rate, Oct '17 | 4.1 |

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

| Sector | S&P/TSX Composite 1M returns | S&P 500 1M returns |
|------------------------|---------------------------------|-----------------------|
| Consumer Discretionary | 1.7 | 5.1 |
| Consumer Staples | 3.8 | 5.7 |
| Energy | -0.1 | 1.8 |
| Financials | 0.4 | 3.5 |
| Health Care | 18.3 | 3.0 |
| Industrials | -1.4 | 3.9 |
| Info Tech | 0.2 | 1.2 |
| Materials | -0.4 | 1.0 |
| Real Estate | 1.5 | 3.0 |
| Telecom Services | 2.4 | 6.1 |
| Utilities | 0.3 | 2.8 |

Source: Bloomberg

Exchange Rates

| Cross | 09/29/2017 | 6 Mos Ago | 1Yr Ago |
|---------|------------|-----------|---------|
| USD/CAD | 1.29 | 1.35 | 1.34 |
| EUR/CAD | 1.54 | 1.52 | 1.42 |
| GBP/CAD | 1.74 | 1.74 | 1.68 |
| CAD/JPY | 87.26 | 82.06 | 85.18 |

Source: Bloomberg

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